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FARM LEASE



Good written farm leases can lead to better understanding and closer cooperation between landowners and tenants. Such leases can also mean improved tenant farming, soil conservation, more food production, and higher farm incomes.

UNITED STATES DEPARTMENT OF AGRICULTURE
Bureau of Agricultural Economics in cooperation
with Extension Service
Miscellaneous Publication No. 627
Revised June 1949

YOUR FARM LEASE

By Max M. ^{essick 1906 -}Tharp, Bureau of Agricultural Economics

When a farm owner and a tenant have the feeling that they are coworkers in a common enterprise they usually get on well together. Each knows that he must put forth his best efforts and must work with the other in a spirit that will benefit both of them. Both realize that the more the farm is made to produce, the more there is to divide between them. Both know that if the farm is to produce well, not only must good farm work be done under conditions favorable to the persons who do the work, but also the farm must be well kept and must be constantly improved. Such an understanding is easier as the landowner and tenant get to know each other better.

Next in importance is the contract or agreement which tells what the understanding is. It tells how the owner and the tenant are to work together. It outlines the duties and responsibilities of each, the part each is to furnish, and the share each is to take of what the farm earns or produces. Such a contract or agreement is called the farm lease.

In the lease, the farm owner agrees that the tenant shall have certain rights to occupy and use the farm for a specified length of time. Both owner and tenant accept certain duties and responsibilities. In addition to the usual items in the lease—like a description of the farm, time of occupancy, crops to be grown, woodland to be managed, livestock to be kept, and rent to be paid—it may cover any special understanding, or project, which the owner and the tenant have talked over and have decided to carry out. There may be arrangements for building fences, enlarging and improving the pasture, constructing terraces or drainage ditches, or other improvements. Details of such improvements usually can be worked out so that each party will be reasonably well satisfied and compensated for what he does.

Each lease must be adapted to the particular farm and to the needs and wishes of the owner and the renter. Your lease may be quite different from your neighbor's lease. Although the wording of the special details must be left to the individual owner and tenant, there are certain *basic principles* or *essentials* that go to make up a good lease. If you know what these things are you have the framework for drawing up a satisfactory rental agreement.

Do You Know the Requirements of a Good Farm Lease?

One of the first requirements of a good farm lease is that it should be in writing. But three out of every four renters and landowners don't write out their agreements. No record is made of their understanding—the entire agreement is left to memory, and memories are often not reliable. After a few weeks or months, some of the things agreed upon are likely to be hazy. Some are forgotten. So misunderstandings often arise. Important points may have been overlooked in the short “talking over” of the agreement to rent and these points may be the very ones that may hurt the future relations between the two parties.

A *good* lease should be written in clear *understandable* words and it should be *fair* to both parties. The lease should outline unmistakably all the important details that have to do with the farming, the contributions of each party, and the amount of rent to be paid in money or produce. It should give the tenant a chance to make an adequate living on the farm. It should set forth definite provisions with regard to maintenance, repairs, conservation, and improvements. Provisions should be included that will encourage the maximum production that is consistent with efficient operation and conservation of resources. And, finally, it should contain an agreement between the parties that they will arbitrate any differences or disputes through the services of a third party.

Of course, a *good* lease cannot take the place of a productive farm of a size that will mean efficient production. Neither can it

take the place of an informed landlord and a capable tenant. But a written lease, covering several years, that provides for an equitable rental and assures the tenant reasonable security and stability on the land, will be a start toward improving tenant farming.

A *good* farm lease, of course, will benefit both parties. The points covered will help tenants to be better farmers and to take better care of the rented land and the improvements on it. Good leases properly carried out often contribute to larger farm earnings for both tenants and their landlords because the work has been better planned. Is your lease a *good* farm lease?

Experience shows that a good written farm lease can protect the landowner's interests, as well as the interests of the tenant. With a good written lease in hand a tenant can feel reasonably sure he can use the land for a specified time and reasonably sure he can use it in certain carefully planned ways. And so he can do a better job of farming. After all, that's the only way an owner can expect a tenant to take care of a farm as if it were his own—and that's the kind of tenant all owners want.

With experience gained over many years, the Department of Agriculture has developed a *Standard Farm Lease* form. This printed form, with blank spaces to be filled in, covers the essential points that most landlords and tenants want in their leases. Of course, it is for *general* use, and any particular details or special arrangements that a landlord and tenant may want must be written in. Spaces are provided for that, and at the end of the lease there is a blank section where special agreements or arrangements, not printed in the lease form, can be added.

On the back of this folder—when it is fully opened—you will find a sample copy of the *Standard Farm Lease*, with an explanation of its most important points printed alongside. It is adaptable for typical crop-share, crop-share-cash, cash, standing rent, and livestock-share renting. Copies of this lease and an *Annual Supplement* are available, free, from your county agent or the

United States Department of Agriculture, Washington 25, D. C.
A copy of *Better Farm Leases*, Farmers' Bulletin 1969, is also obtainable from the same addresses.

Many of the State Agricultural Colleges have prepared lease forms and excellent publications on farm leasing. These may be better adapted to local conditions than the Department of Agriculture form. Ask your county agent about them.

Even though you may find some other form that is better suited to your own needs than the sample lease explained on the back of this folder, you might find it helpful to study the main points of this one. You may wish to learn more about how the *Standard Farm Lease* can be filled out to include the *basic principles* or essentials of a good lease. If you do, open up this folder, full size, and turn to the printed sample, illustrated on the back.

METHOD FOR ESTIMATING RENT

The amount of rent and the division of expenses between landlord and tenant are the most important decisions they have to make in arriving at a good farm lease. Under share renting, local custom is often followed in deciding on the shares of major crops and livestock enterprises to be paid as rent and in deciding upon the principal contributions in terms of investments and expenses. If you want to follow customary practice, certain items can be shared so as to provide a fair division of expenses and income.

A table that may be used for making these estimates is shown on the page at the right. Although accurate estimates cannot be made for all items, a full consideration of each item by landlord and tenant working together should go a long way in helping to decide on satisfactory rental terms.

When assigning values to the items, it would be helpful to have available for reference good information on typical costs for these expenses. Such information often can be obtained from the county agricultural agent, other local agricultural workers, or the college of agriculture. While considering these figures and other information, the tenant and landlord will find it necessary to sit down together and reach an agreement on the values to be placed on these items. Financial records of the particular farm are often the best source of this information.

Where the entire rent is to be a share of the crops or livestock or both, you may want to divide the contributions between landlord and tenant (columns D and E) so as to make the customary share rentals equitable, or balance the contributions by shifting customary shares. Where some cash rent is to be paid in addition to share rent, the amount of cash rent can be decided upon so as to equalize expenses and incomes as between the two parties. Where only cash rent is to be paid for the entire farm, a further step is necessary. The gross farm income must be estimated. Thus a fair cash rent would bear about the same proportion to this gross

income as the landlord's share of expenses bears to the total farm expenses.

As an example, suppose estimated annual INTEREST CHARGES AND FARM OPERATING EXPENSES (line 21, column C) is \$4,000 and the landlord and tenant want to share the crops half and half, then expenses would be shared half and half. But if the first division of expenses in columns D and E is \$2,250 for the landlord and \$1,750 for the tenant, the two parties will want to adjust selected expenses so that each would pay approximately \$2,000. If some cash rent is to be paid in addition to share rent, then cash rent could be increased to equalize the difference.

You will note there is no place in the table to assign a value to two important items—"management" and "risk." These are particularly difficult to estimate in terms of dollars, and the ways in which they are shared between landlords and tenants vary widely. For any given type of farming, a crop- or livestock-share lease puts more of the risk on the landlord than a cash lease.

Management furnished by tenants often varies greatly. A tenant who is a good manager should receive a greater share of returns than one with less skill because he makes this extra contribution.

Neither risk nor management should be ignored when the proper distribution of farming returns is decided on, but they can best be handled by negotiation between individual landlords and tenants. After working through this table, you should be in a better position to decide what further adjustments, if any, should be made to allow for risk and management.

TABLE FOR ESTIMATING RENT

ITEM OF EXPENSE	(A)	(B)	ESTIMATED ANNUAL COST		
	ESTIMATED TOTAL VALUE	ESTIMATED INTEREST RATE	(C) WHOLE FARM	(D) LANDLORD'S SHARE	(E) TENANT'S SHARE
	<i>Dollars</i>	<i>Percent</i>	<i>Dollars</i>	<i>Dollars</i>	<i>Dollars</i>
INTEREST CHARGES:					
1. Land and buildings.....					
2. Tractor and workstock.....					
3. Machinery and equipment.....					
4. Productive livestock.....					
5. Feed and supplies.....					
6. Other.....					
7. TOTAL.....		X X X X X	X X X X X	X X X X X	X X X X X
FARM OPERATING EXPENSES:					
8. Labor:					
(a) Tenant.....					
(b) Landlord.....					
(c) Unpaid family.....					
(d) Hired.....					
9. Repairs:					
(a) Buildings, fences, etc.....					
(b) Machinery.....					
10. Depreciation:					
(a) Buildings, fences, etc.....					
(b) Tractor and workstock.....					
(c) Machinery.....					
11. Tractor fuel.....					
12. Machine work hired.....					
13. Seed purchased.....					
14. Fertilizer and lime.....					
15. Other crop expense.....					
16. Feed purchased.....					
17. Other livestock expense.....					
18. Insurance:					
(a) Buildings.....					
(b) Personal property.....					
19. Taxes:					
(a) Land and buildings.....					
(b) Personal property.....					
20. Miscellaneous.....					
21. TOTAL INTEREST CHARGES AND FARM OPERATING EXPENSES.....					

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